

# THE RIGHTS STUFF

## How to generate GROWTH and PEACE in the MIDDLE EAST and NORTH AFRICA



**HERNANDO de SOTO**, founder of the Institute for Liberty and Democracy and winner of the Cato Institute Milton Friedman Prize for Advancing Liberty, argues that the Arab Spring represents an unprecedented opportunity to remove the constraints to broad-based economic growth in the Middle East and North Africa (MENA). Here he talks to IEA Editorial Director, Philip Booth...

### **Why was the Arab Spring different from the many revolutions we have seen in the past in similar countries?**

The unrest of the Arab Spring was actually started by a small entrepreneur whose problems in running his business typify the economic problems that affect much of this region. Whilst the Arab Spring has, to some extent, been hijacked by other groups, the underlying problems in the Middle East and North Africa will not be resolved until the economic constraints on entrepreneurship and investment are removed. Fundamentally, therefore, the Arab Spring started as a result of the

problems facing small entrepreneurs and these countries will not bloom until those problems are resolved.

### **So, why doesn't Tunisia – and other governments in the MENA region – just get rid of “the constraints on growth” that cause so much unrest?**

The problem is that, although the constraints on growth often seem to be “micro-level” problems, these constraints exist because of problems at a higher institutional level in MENA countries. Western countries were able to establish the basic systems of property rights that allowed economic

growth because they were good at removing the higher-level constraints that are fundamental to reform.

### **The Arab Spring was triggered by Mohamed Bouazizi, a Tunisian street vendor, publicly committing suicide after having his weighing scales and a cartful of fruit confiscated. Was that an isolated incident?**

No, it certainly was not. Sadly, the way in which Mohamed Bouazizi was treated was typical of the difficulties faced by entrepreneurs who cannot easily run their businesses legally so that they are informal



## AFTER MOHAMED BOUAZIZI'S DEATH... WE LOCATED 63 MORE MEN AND WOMEN WHO REPLICATED BOUAZIZI'S BLAZING PROTEST ...IN ONE COUNTRY AFTER ANOTHER

and unregistered. After Mohamed Bouazizi's death, we dispatched a team to Tunisia that spent 20 months in the region. In the course of our research, we located 63 more men and women who replicated Bouazizi's blazing protest within 60 days of his death – in one country after another. Like him, they were all entrepreneurs, who had also been expropriated. We have their stories, not only because we interviewed their families, colleagues and the authorities, but also because we had the opportunity to interview many of the 37 who had survived.

### ***So, looking to the future, are an Arab culture and a market economy simply incompatible?***

No, certainly not. This is a myth. The organisation I founded, the Institute for Liberty and Democracy in Peru, has estimated that about 380 million people in the MENA region derive their livelihood from the market economy but without the protection of the law. The reason they perform poorly is the lack of information, confidence and opportunities for collaboration that property rights and business law provide. Without these, it is impossible to use assets to obtain credit or capital, or to combine assets and talents so that the whole may be greater than the sum of the parts. Property rights produce the trust that allows credit and capital to flow and global markets to work.

### ***And what is the extent of formal and informal property rights in this area?***

Only eight per cent of land in the MENA region can be used to collateralise credit. Only about 15 per cent of Arab enterprises and families have access to the property rights that facilitate valuable combinations and protect them from the kind of arbitrary expropriation that triggered the Arab Spring. The average Arab entrepreneur needs to present 57

documents and faces two years or more of red tape to obtain a legal property right over land or a business. We believe that, if all these constraints were removed, annual growth could increase by 2 per cent after five years. It should be noted that the property rights systems are not that bad, once a right is established. The problem is that the majority of Arabs cannot practically access these formal systems. There is therefore a form of economic apartheid. Unfortunately, to change this, we need radical reform of the whole government system – not just piecemeal reform of one department. In Egypt, for example, to legally open a business requires dealing with 29 different government agencies and navigating 215 sets of laws. Fighting economic apartheid is therefore a political responsibility at the highest level.



## ABOUT 380 MILLION PEOPLE IN THE MENA REGION DERIVE THEIR LIVELIHOOD FROM THE MARKET ECONOMY BUT WITHOUT THE PROTECTION OF THE LAW

### ***Can you give us a better sense of the problems caused by informal property rights and business licensing regimes?***

In all poor countries – and, indeed, in many countries considered middle income, such as Egypt and Tunisia – there are networks of enterprise that are considered “informal”, “traditional”, “customary”, “tribal”, “cultural”, “refugee”, “micro” or simply the poor man's response to unemployment. Such enterprises get labelled as outside the realm of real business and are then shelved and forgotten. These businesses

have none of the legal mechanisms that enable a Western business to scale up its operations, such as: property rights that facilitate buying and selling; asset sharing; the ability to make written contractual commitments instead of merely spoken agreements; a proper hierarchical management structure independent from family or political organisations; the employment of labour on enforceable contracts; limited liability to reduce risk and separate what is personal from the business; the ability to advertise; the ability to pass on or sell a successful business; the ability to seek investment to expand a business; the ability to enforce contracts made with suppliers or purchasers of the business's products. The list is endless. People in the West do not understand the problem because they take property rights and legal systems for granted. You cannot have any complex manufacturing process without business formalisation – and certainly a process that involves importing raw materials and exporting a finished product is impossible.

### ***And it was precisely these problems that were faced by Bouazizi...***

When we asked Bouazizi's family what they believed he had died for, they answered, “for the right

to buy and sell”. Suicide in defence of property rights is hard for the modern Western mind to understand. Especially since we're talking about a man like Bouazizi, who set himself on fire to protest at the loss of an electronic scale and some fruit. But Bouazizi's right to hold on to things and buy and sell them were not protected by law but by the arbitrary and personal goodwill of local authorities. So, when they took away his goods and his location and refused to change their minds, the only source of nearly all his rights was shut off. Bouazizi had no ability

to appeal and was thus immediately ruined. He could no longer repay the loans he had taken to buy his confiscated merchandise. He was bankrupt and no longer credit-worthy. He could not sell his business and move elsewhere because he had no documented business to pass on to buyers. He couldn't get a fresh injection of capital because he had no right to issue shares. Bouazizi had the informal property right to park his fruit stand in a particular place every day in the Sidi Bouzid market – until the authorities who gave him that right decided to take it away, along with the fruit he was selling and the scales he used to win the trust of his customers. How can you invest in a business facing this level of uncertainty?



## THERE WILL BE NO TRUE “CATCH-UP” WITH THE WEST UNTIL THESE THINGS ARE ESTABLISHED

***We have recently had elections in many of the Arab Spring countries. These came about as an indirect result of Bouazizi's actions. Will we achieve swift change as a result of the election of governments pledged to reform?***

It is possible that we may get the radical systemic reform that is needed. However, for any politician – even the most reform-minded one – a

challenge to the status quo carries extreme political costs. There is no effective way to achieve a consensus on these matters.

***If reform cannot easily be achieved through the ballot box, what has to be done?***

Action has to be taken on a number of fronts. These problems have to be made more widely known. The publication of evidence regarding these problems in Peru by our own organisation earned us a worldwide reputation in development, academic, and journalistic circles. Not only was our analysis considered interesting but the experts also paid attention to our proposals and reforms happened. We have advised various governments on their reform efforts and persuaded them that these problems are a major source of conflict and violence and produce a huge social rift in their societies. We were controversial but we were also influential. We have to change government policy but also the intellectual climate because so much has to change at so many levels.

***So what are the alternative scenarios for MENA countries in the long-term future?***

One thing is clear: no broad-based entrepreneurial class will emerge until all society has access to legal property rights and a legal system in which all businesses can operate. There will be no true “catch-up” with the West until these things are established. If they are not established, there is every chance that, identifying the wrong problem, people will turn their frustrations into violence and so there will be no substantial progress. But, if MENA countries do what all developed countries have done over the last 150 years and, consciously or not, pull together conventions on property into codified law administered by fair systems of justice – then the future can be very bright indeed for the Arab Spring countries •

